Nova Scotia Municipal Finance Corporation

22nd Annual Report
2002

Nova Scotia

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How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989.

Purpose and Mission

The Corporation's purpose is to provide financing of the capital requirements of municipalities, school boards, and hospitals by issuing its securities and relending the funds for these purposes. However, currently both school and hospital construction debt are financed directly by the Province of Nova Scotia.

All municipalities and school boards must finance, and hospitals may finance, their capital requirements through the Corporation, except for capital projects funded directly by the Province of Nova Scotia, interim financing, and certain projects for which funds may be borrowed from the Government of Canada, the Province, or other municipalities within the province.

The Corporation's mission is to utilize credit enhancement and debt pooling techniques to meet clients' approved funding requirements at the lowest possible cost.

Administration

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor-in-Council. Forty per cent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Service Nova Scotia and Municipal Relations may be cost-shared by the Province in such proportion as the Governor-in-Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by the Corporation and/or the borrowing units.

Support staff and resources of the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations have been provided to the Corporation.

Office location:
Suite 208, 1601 Lower Water Street
Halifax, Nova Scotia, B3J 1S2

Mailing address:
P.O. Box 850, Station M
Halifax, Nova Scotia B3J 2V2
Telephone: (902) 424-4590
Fax: (902) 424-0525
Website: http://www.gov.ns.ca/nsmfc/

Directors and Officers *(as at March 31, 2002)*

Directors of the Corporation

Brian Stonehouse, PEng, Chair
Deputy Minister
Department of Service Nova Scotia and Municipal Relations

Bruce Hetherington
Councillor
Halifax Regional Municipality

James E. Radford, MBA, CA
Business Consultant, Halifax, Nova Scotia

Richard G. Ramsay, MPA
Business Consultant, Berwick, Nova Scotia

Douglas P. Stratton, Executive Director
Investments, Pensions and Treasury Services
Department of Finance

Officers of the Corporation

Chair
Brian Stonehouse, PEng
Deputy Minister
Department of Service Nova Scotia and Municipal Relations

Chief Executive Officer and Treasurer
R. Mark Gilbert, MBA, PhD

Corporate Secretary
Jane Fraser
Senior Financial Analyst
Nova Scotia Department of Finance

General Counsel
Margaret MacDonald
Solicitor
Nova Scotia Department of Justice

Assistant Treasurer
Roy Spence
Director, Liability Management and Treasury Services
Nova Scotia Department of Finance

Directors' Report

Highlights and Changes

The 2001–02 Business Plan includes the mission and strategic goals of the Corporation and the results achieved during the fiscal year. In addition to meeting the capital infrastructure financing requirements of municipal units and enterprises in Nova Scotia, the Corporation provided technical assistance on financial issues and continued to explore and develop new methods and products to meet client needs.

Business Plan

The Corporation's Board of Directors approved a business plan for the 2001–02 fiscal year. The plan reaffirms our mission statement which is "to utilize credit enhancement and debt-pooling techniques to meet clients' approved funding requirements at the lowest possible cost." This is achieved by issuing debentures. The Corporation pools municipal borrowing requirements, which eliminates the need for individual municipalities to negotiate and administer their own debenture issues. Under the Municipal Finance Corporation model, the debt issuance function remains in the public sector domain.

The business plan features four strategic goals, which are identified below. The outcomes, indicators, measures, and results are included.

Strategic Goal 1

To work with clients, the Province, and the investment community to provide capital financing to our clients at the lowest cost of funds available for their particular debt structure and timing needs.

Outcome:
Meeting approved client financing requirements

Indicator:
Response to approved requests for financing

Measures:
(1) percentage of formal requests complied with through the debenture-issue immediately following the request and
(2) average response time to formal requests – measured in weeks

Results:
Responded to all client requests in a timely fashion by pricing issues within 6 to 9 weeks of formal municipal requests. This length of time is a result of the need for both MFC and the Province to pre-approve the parameters used when negotiating the debenture issues.

Additional results:
- Issued $49,924,000 in debentures and on-loaned a similar amount to clients.
- Administered $4,341,000 in short-term financing pending issuance of a debenture.
- Administered $501 million in outstanding debentures which included the payment of debenture interest.
- Administered $500 million in outstanding loans to municipalities, school boards, and hospitals.
- Invested and administered pooled sinking fund trusts valued at $20 million.

Strategic Goal 2

To explore and develop new methods and products for meeting the needs of our clients through contact with the investment community, the public sector, and academic research.

Outcome:
Awareness of new loan features that may benefit clients

Indicator:
Amount of communication with clients, investment community, academics, and public sector counterparts

Measure:
Per cent of potential borrowers contacted

Results:
Conducted 15 field visits during the year, which represents 25 per cent of municipal units and other active clients.

Additional results:

- Continued with attempts to implement the MFC/interdepartmental/municipal committee recommendation to develop a funding source for a pooled lease financing program for Nova Scotia municipalities.
- Developed a bridge financing program for municipalities participating in federal/provincial infrastructure programs where cost sharing covers more than one fiscal period.
- Participated on implementation committees relating to the Provincial/Municipal Roles and Responsibility review initiative.
- Provided advice to the consultant responsible for the financial evaluation of a large municipal capital project.
- Held meetings with the Corporation's lead managers and other members of the investment community, staff of the NS Department of Finance, and other municipal finance corporations, to discuss trends and developments in municipal capital financing.
- Improved the NSMFC website.

Strategic Goal 3

To promote responsible and professional approaches to municipal capital project planning and financing (jointly with the department of Service Nova Scotia and Municipal Relations)

Outcome:
Optimum use of capital funds and improved community infrastructure

Indicator:
Information on capital planning and finance

Measure:
Per cent of borrowers with a capital budgeting, planning, and financing strategy

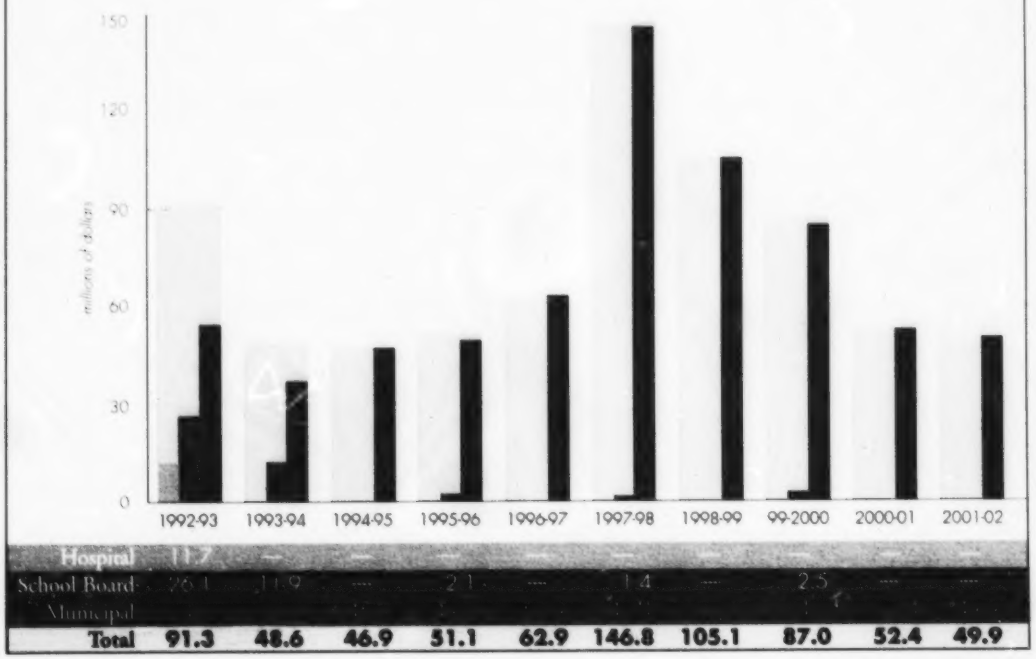
Results: In progress

Additional results:

- Conducted fifteen field visits during the year.
- Worked with staff of the Service Nova Scotia and Municipal Relations and municipal staff to develop responses to municipal capital financing proposals.

Long-Term Loans Made During Year

**as at March 31*



	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	99-2000	2000-01	2001-02
Total	91.3	48.6	46.9	51.1	62.9	146.8	105.1	87.0	52.4	49.9

Note: The amount of debentures issued during the year approximates the long-term loans made.

Additional results:

- Continued with attempts to implement the MFC/interdepartmental/municipal committee recommendation to develop a funding source for a pooled lease financing program for Nova Scotia municipalities.
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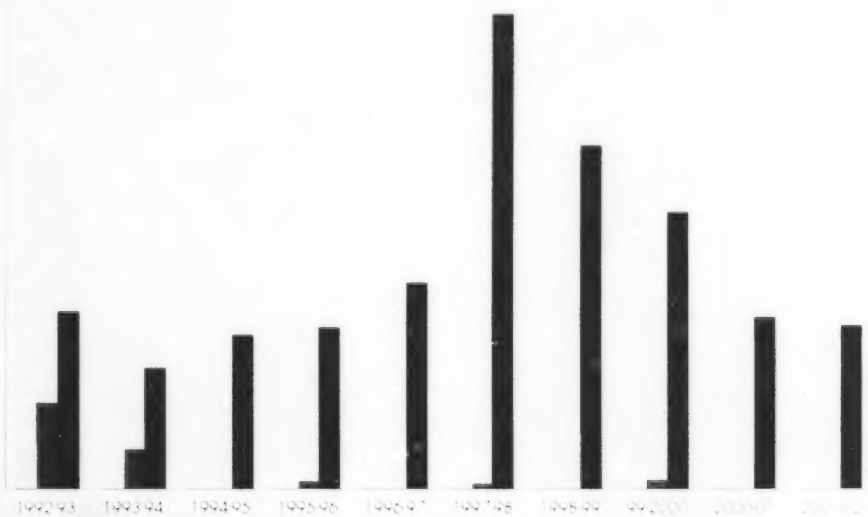
(as at March 31)



	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
School Board	26.1	11.9	—	2.1	—	1.4	—	2.5	—	—
Municipal	54.0	36.7	46.9	49.0	62.9	145.4	105.1	84.5	52.4	49.9
Total	**91.3**	**48.6**	**46.9**	**51.1**	**62.9**	**146.8**	**105.1**	**87.0**	**52.4**	**49.9**

Note: The amount of debentures issued during the year approximates the long-term loans made.

- Responded to the information needs of municipalities and the investment community.

Strategic Goal 4

To prudently manage all financial aspects of the Corporation, including credit risk and asset/liability management.

Outcome:
Matching of assets and liabilities

Indicator:
Information on a MFC pooled debenture issues and loans to municipal clients

Measure:
Similarity of aggregate amounts, terms, and timing of debentures and loans

Results:
Matched the amount, term, and timing of MFC debentures and loans to units.

Additional results:
Verified credit worthiness of loan applicants with Service Nova Scotia and Municipal Relations before setting the parameters for pooled issues.

Loans to Municipal Units and School Boards

The Corporation's loan portfolio comprises loans to school boards and hospitals that are serviced by the Province of Nova Scotia and loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities. There are no arrears. The Nova Scotia Department of Service Nova Scotia and Municipal Relations performs the credit check using ministerially approved debt policy guidelines and the Minister approves all capital loans to municipal units and enterprises.

The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

Schedule of New Loans by Purpose (By Jurisdiction)

Purpose	Regionals	Towns	Rural Municipalities	Municipal Enterprises	Purpose Totals
Water	$ 0	$ 3,414,000	$ 755,000	$ 10,012,500	$14,181,500
Sewer	1,819,137	225,000	100,000	0	2,144,137
Streets	13,495,679	1,068,915	0	0	14,564,594
Buildings	5,739,769	402,725	1,000,000	1,790,000	8,932,494
Land	514	0	0	0	514
Equipment	4,025,769	606,407	0	805,100	5,437,276
Recreation	1,206,025	163,800	0	0	1,369,825
Solid Waste	0	1,383,690	1,327,772	0	2,711,462
Sewage Treatment	0	0	580,000	0	580,000
Totals	$26,286,893	$7,264,537	$3,762,772	$12,607,600	$49,921,802
Percentage	52.66%	14.55%	7.54%	25.25%	100.00%

103-00606/

During the year, long-term loans totalling $49,921,802 were made to 27 municipal units and municipal enterprises. They were used for the purposes shown on page 6.

Interim loans of $3,635,000 were made during the year to one municipality and one municipal enterprise. These loan will be repaid from the proceeds of long-term loans made as part of the pooled debenture issue in the spring of 2002.

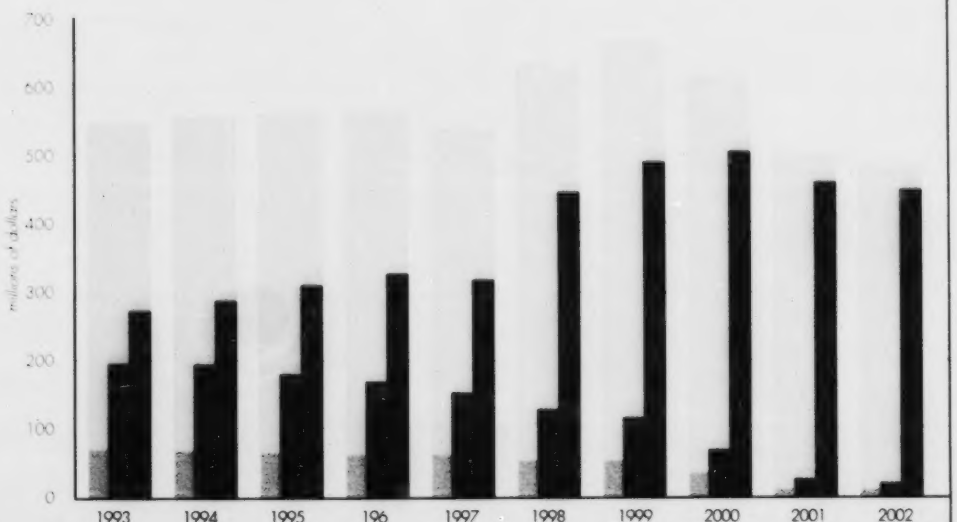
The accumulated loans outstanding at March 31, 2002, amount to $ 481.8 million, comprising $452.2 million to 66 municipal units and enterprises, $18.7 million to 21 school boards, and $10.9 million to two hospitals. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following chart shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Outstanding Borrowing Program

Funds totalling $49.9 million for the loans for municipal and school purposes were raised through two issues in the Canadian domestic market. Both issues were placed privately with the Province of Nova Scotia which purchased a $30.5 million issue in May and a $19.4 million issue in November. Interest rate coupons ranged from 3.125 per cent to 6.25 per cent.

Loans to Municipal Units, School Boards, and Hospitals

**as at March 31*



	1993	1994	1995	196	1997	1998	1999	2000	2001	2002
Hospital	71.6	69.0	66.4	63.7	63.0	53.9	53.9	35.3	11.8	10.9
School Board										
Municipal										
Total	**543.5**	**554.0**	**559.4**	**562.3**	**536.3**	**631.8**	**663.8**	**612.5**	**500.2**	**481.8**

Note: The amount of debentures outstanding at the end of each year approximates the loans.

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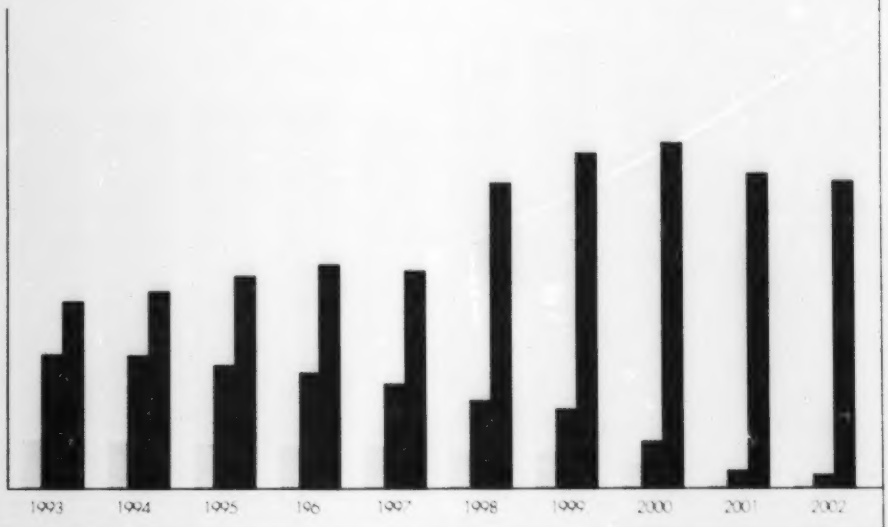
Loans to Municipal Units, School Boards, and Hospitals

As at March 31



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
School Board	197.0	195.4	181.0	169.6	153.4	128.6	116.2	68.3	25.0	18.7
Municipal										
Total	**543.5**	**554.0**	**559.4**	**562.3**	**536.3**	**631.8**	**663.8**	**612.5**	**500.2**	**481.8**

Note The amount of debentures outstanding at the end of each year approximates the loans

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/01	New Loans	Principal Repaid	Principal March 31/02
Regionals:				
Halifax RM	$ 254,600,467	$ 26,219,000	$ (37,304,911)	$ 243,514,556
Cape Breton RM	24,690,055	0	(5,077,291)	19,612,764
Queens RM	3,868,828	67,893	(438,122)	3,498,599
Total Regionals	283,159,350	26,286,893	(42,820,324)	266,625,919
Province of Nova Scotia	36,794,790	0	(7,189,109)	29,605,681
Towns:				
Amherst	3,703,965	999,952	(800,955)	3,902,962
Annapolis Royal	869,381	0	(84,217)	785,164
Antigonish	1,053,018	0	(88,000)	965,018
Berwick	1,612,625	123,765	(197,773)	1,538,617
Bridgetown	226,985	180,000	(20,576)	386,409
Bridgewater	4,752,389	0	(527,711)	4,224,678
Canso	981,003	0	(25,225)	955,778
Clark's Harbour	65,500	0	(13,100)	52,400
Digby	758,920	128,000	(94,080)	792,840
Hantsport	98,810	152,000	(20,330)	230,480
Kentville	2,414,300	3,049,400	(470,294)	4,993,406
Lunenburg	1,040,900	0	(197,850)	843,050
Mahone Bay	948,900	0	(209,700)	739,200
Middleton	1,132,773	60,000	(139,264)	1,053,510
Mulgrave	75,000	0	(7,500)	67,500
New Glasgow	6,473,365	0	(433,373)	6,039,992
Oxford	798,300	1,345,760	(69,600)	2,074,460
Parrsboro	0	86,860	0	86,860
Pictou	857,664	0	(39,547)	818,117
Port Hawkesbury	1,266,250	0	(75,750)	1,190,500
Shelburne	447,750	0	(29,850)	417,900
Springhill	1,190,000	179,800	(85,000)	1,284,800
Stellarton	920,895	0	(111,520)	809,375
Stewiacke	455,750	0	(26,750)	429,000
Trenton	303,876	130,000	(76,331)	357,545
Truro	1,700,000	0	(100,000)	1,600,000
Westville	1,471,776	0	(107,031)	1,364,745
Windsor	747,800	0	(103,100)	644,700
Wolfville	4,749,597	829,000	(656,757)	4,921,840
Yarmouth	5,068,229	0	(957,463)	4,110,766
Total Towns	$ 46,185,721	$ 7,264,537	$ (5,768,647)	$ 47,681,611

Schedule of Outstanding Loans *continued*

By Jurisdiction	Principal March 31/01	New Loans	Principal Repaid	Principal March 31/02
Municipalities and villages (v)				
Annapolis	$ 6,077,289	$ 0	$ (503,935)	$ 5,573,354
Antigonish	480,000	875,000	(40,000)	1,315,000
Argyle	75,000	0	(25,000)	50,000
Baddeck (v)	306,250	0	(17,000)	289,250
Barrington	1,400,450	405,000	(414,018)	1,391,432
Chester	1,562,601	725,000	(265,266)	2,022,335
Colchester	22,953,332	0	(1,803,167)	21,150,165
Cumberland	2,277,000	902,772	(220,350)	2,959,422
Digby	60,000	0	(60,000)	0
Guysborough	2,918,000	0	(91,000)	2,827,000
East Hants	2,438,574	100,000	(693,936)	1,844,638
West Hants	761,665	0	(76,167)	685,498
Inverness	1,490,000	0	(260,000)	1,230,000
Kings	9,898,398	675,000	(982,307)	9,591,091
Kingston (v)	394,668	0	(53,499)	341,169
Lawrencetown (v)	168,600	0	(29,850)	138,750
Lunenburg	2,880,000	0	(180,000)	2,700,000
New Minas (v)	825,000	0	(175,000)	650,000
St. Peters (v)	90,000	0	(5,000)	85,000
Pictou	3,631,915	0	(299,182)	3,332,733
Port Williams (v)	146,000	80,000	(108,500)	117,500
Richmond	880,000	0	(80,000)	800,000
Shelburne	51,000	0	(8,500)	42,500
Victoria	2,267,000	0	(124,000)	2,143,000
Westport (v)	49,500	0	(5,500)	44,000
Yarmouth	1,057,500	0	(67,500)	990,000
Total Municipalities and Villages	65,139,741	3,762,772	(6,588,677)	62,313,837
Municipal Enterprises:				
Braemore Home	204,796	0	(51,234)	153,562
Bridgewater Public Service Commission	550,000	4,500,000	(550,000)	4,500,000
Digby Housing Corporation	0	706,000	0	706,000
Glen Haven Manor	1,083,513	1,084,000	(1,083,513)	1,084,000
Halifax Regional Water Commission	64,914,000	5,512,500	(4,135,000)	66,291,500
Lunenburg Home for Special Care	991,000	0	(13,000)	978,000
R.K. MacDonald	1,183,000	300,000	(129,200)	1,353,800
Villa Acadienne	0	505,100	0	505,100
Total Enterprises	68,926,309	12,607,600	(5,961,947)	75,571,962
Total Loans	**$ 500,205,912**	**$49,921,802**	**$(68,328,704)**	**$ 481,799,010**

Trust Funds under Administration

The Corporation administers sinking funds on behalf of borrowers. These sinking funds, which relate to 20 individual loans totalling $24.6 million, are to be applied to the repayment of these loans at maturity.

Following is a summary of the continuity of the balance of the sinking funds for the year: Investments are purchased according to the Investment Policy of the Board of Directors and are recorded in the financial statements at their amortized cost. Discounts and premiums on the purchase of securities are amortized over the remaining term to maturity. The investment policy includes guidelines for matching sinking fund assets and liabilities.

At March 31, 2002, the investment portfolio included securities of the Province of Nova Scotia and its guarantees (55 per cent), other provinces and their guarantees (32 per cent), and municipalities (13 per cent).

The average rate of return earned on the combined sinking funds was 7.4 per cent this fiscal year.

Sinking Fund Assets

Cash and short-term investments	$ 30,061
Accounts receivable	0
Accrued interest	704,748
Investments, at amortized cost	22,980,954
	$ 23,715,763

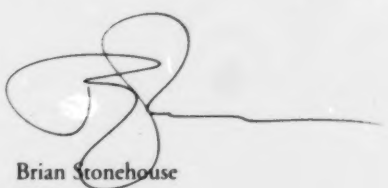
Fund Continuity

Balance of sinking funds—April 1, 2001	$ 20,094,782
Installments received	2,000,497
Income earned	1,620,484
Payout of matured loans	0
Balance of sinking funds—March 31, 2002	$ 23,715,763

Acknowledgements

Mr. Clint Schofield retired from the Board during the year. We wish to thank him for his contribution to the Corporation during his term, and welcome his successor, Mr. Bruce Hetherington, as our newest director.

We acknowledge the administrative support and co-operation received from the departments of Education, Finance, Justice, and Service Nova Scotia and Municipal Relations. Each of these departments has contributed the services of staff, which provides considerable assistance to the Corporation. The Directors wish to thank the staff of the Corporation for their excellent contribution.



Brian Stonehouse
Chair

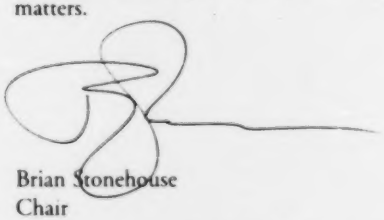
Management's Responsibility for Financial Statements

The financial statements of Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared according to CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the annual report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, KPMG, whose responsibility it is to express an opinion on whether the financial statements are fairly presented according to generally accepted accounting principles. The Auditors' Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

Provincial procurement policy requires that provincial crown corporations use a competitive bidding process for goods and services. The Corporation's previous audit contract expired at the end of the 1996–97 fiscal year. A request for proposals for audit services for a five-year period beginning in the 1997–98 fiscal year was issued by the Corporation. KPMG's proposal was the most competitive and was accepted by the Board of Directors.

The financial statements and all information in the Annual Report have been approved by the Board of Directors. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.



Brian Stonehouse
Chair

R Mark Gilbert
R. Mark Gilbert
Chief Executive Officer

Auditors' Report to the Directors

We have audited the balance sheet of Nova Scotia Municipal Finance Corporation as at March 31, 2002, and the statements of revenue, expenditure, and reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2002, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG
Chartered Accountants

Halifax, Canada
May 8, 2002

Balance Sheet

March 31, 2002, with comparative figures for 2001

Assets

	2002	2001
CURRENT ASSETS:		
Cash	**$ 59,386**	$ 41,649
Short-term investments, at cost (market - $4,485,000; 2001 - $4,959,659)	**4,485,000**	4,959,659
Accrued interest receivable	**11,193,335**	12,024,608
Other receivables	**2,271**	1,655
Principal due within one year on loans to units	**94,534,811**	68,328,704
	110,274,803	85,356,275
LONG-TERM ASSETS:		
Loans to units *(note 3)*	**481,799,110**	500,206,012
Less principal included in current assets	**94,534,811**	68,328,704
	387,264,299	431,877,308
Investments, at amortized cost (market - $540,096; 2001 - $756,187)	**586,711**	773,549
	387,851,010	432,650,857
DEFERRED CHARGES:		
Discount on debenture debt	**2,600,982**	2,532,143
Less accumulated amortization	**1,643,729**	1,507,223
	957,253	1,024,920
	$ 499,083,066	$ 519,032,052
TRUST FUND ASSETS *(note 4)*	**$ 23,715,763**	$ 20,094,782

Liabilities and Equity

	2002	2001
CURRENT LIABILITIES:		
Accounts payable	**$ 66,105**	$ 36,844
Accrued interest payable	**11,180,577**	12,014,170
Principal due within one year on debenture debt	**95,335,750**	69,064,750
	106,582,432	81,115,764
ACCRUED PUBLIC SERVICE AWARDS *(note 8)*	**24,773**	–
LONG-TERM DEBT:		
Debentures payable *(note 5)*	**482,172,500**	501,313,250
Less principal included in current liabilities	**95,335,750**	69,064,750
	386,836,750	432,248,500
DEFERRED CREDITS:		
Discount on loans to units	**2,591,283**	2,523,323
Less accumulated amortization	**1,635,701**	1,513,830
	955,582	1,009,493
EQUITY:		
Reserve Fund	**4,683,529**	4,658,295
	$ 499,083,066	$ 519,032,052
TRUST FUNDS UNDER ADMINISTRATION *(note 4)*	**$ 23,715,763**	$ 20,094,782

See accompanying notes to financial statements.

Approved on behalf of the Board:

Bruce Hetherington
Director

Director

Statement of Revenue, Expenditure & Reserve Fund

Year ended March 31, 2002, with comparative figures for 2001

	2002	2001
REVENUE:		
Interest on loans to units	$ 33,320,142	$ 40,860,550
Amortization of discount on loans to units	237,849	223,660
Interest on short-term investments	247,408	410,616
Current discount on loans to units	315,032	328,080
	34,120,431	41,822,906
EXPENDITURE:		
Interest on debenture debt and short-term loans	33,372,259	41,015,750
Amortization of discount on debenture debt	251,604	228,703
Debenture issue expenses	198,942	197,150
Administrative expenses	272,392	227,178
	34,095,197	41,668,781
NET REVENUE	25,234	154,125
RESERVE FUND, BEGINNING OF YEAR	4,658,295	4,504,170
RESERVE FUND, END OF YEAR	$ 4,683,529	$ 4,658,295

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2002, with comparative figures for 2001

	2002	2001
CASH PROVIDED BY (USED IN):		
Operations:		
Net revenue	**$ 25,234**	$ 154,125
Add (deduct) items not involving cash:		
Amortization of discount on loans to units	**(237,849)**	(223,660)
Amortization of discount on debenture debt	**251,604**	228,703
Amortization of discount on investments	**(45,124)**	(23,440)
Change in non-cash working capital (note 7)	**26,325**	(12,861)
Increase in accrued public service awards	**24,773**	–
	44,963	122,867
INVESTMENTS:		
Issue of loans of $49,921,802 to units on security of debentures, net of discounts of $183,938 (2001 - $52,411,252 net of discounts of $123,097)	**(49,737,864)**	(52,288,155)
Principal received on loans to units	**68,328,704**	164,707,481
Principal received on maturing investments	**231,963**	6,925,000
Purchase of investments of nil (2001 - $840,814), net of discounts of nil (2001 - $84,626)	**–**	(756,188)
	18,822,803	118,588,138
Financing:		
Issue of debentures of $49,924,000, net of discounts of $183,938 (2001 - $52,413,000 net of discounts of $123,107)	**49,740,062**	52,289,893
Principal payment on debenture debt	**(69,064,750)**	(168,042,750)
	(19,324,688)	(115,752,857)
INCREASE (DECREASE) IN CASH POSITION	**(456,922)**	2,958,148
CASH POSITION, BEGINNING OF YEAR	**5,001,308**	2,043,160
CASH POSITION, END OF YEAR	**$ 4,544,386**	$ 5,001,308

Cash position is defined as cash and short-term investments.

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 2002

The Corporation was created by the Municipal Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980, and has a March 31 fiscal year-end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, including district school boards, and hospitals through a central borrowing authority.

1 Summary of significant accounting policies:

(a) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(b) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide for funds which may be required for administrative purposes and timing differences.

2 Fair values of financial instruments:

Financial assets and financial liabilities:
The fair values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable and principal due within one year on loans to units and debenture debt are assumed to approximate their carrying amounts because of their short-term to maturity. The fair values of investments are assumed to approximate quoted market values as disclosed in the financial statements.

The fair values of the Corporation's loans to units and debentures payable fluctuate with changes in current lending rates. The Corporation's mandated rate of interest charged on loans to units is directly correlated to its cost of borrowing, thereby providing a hedge against equity erosion. As at March 31, 2002, the Corporation's debenture debt was hedged by offsetting loans to units with the exception of $373,390 which was hedged by promissory notes. The fair market value of the promissory notes was $608,851, while the fair market value of the debentures in excess of the loans to units was $379,659. As the Corporation normally holds the debentures to maturity, book values of the investments and debentures have not been adjusted to reflect the differences.

Trust fund assets managed by the Corporation are completely offset by trust fund liabilities providing a hedge against fair value changes.

3 Loans to units:

(a) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.00 per cent to 12.5 per cent. Due to existing provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

(b) Principal payments receivable in each of the next five years are as follows:

2003	94,534,811
2004	55,368,094
2005	55,564,653
2006	55,172,357
2007	52,641,569

4 Trust funds under administration:

Trust fund assets totalling $23,715,763 (2001 - $20,094,782) are held on behalf of certain provincial debt issued for school and hospital construction financed through debenture Series "AC". These funds represent sinking funds which are held by the Corporation to be applied to the repayment of outstanding debenture debt Series "AC" at maturity.

5 Debentures payable:

(a) The debenture debt outstanding at March 31, 2002, totalling $482,172,500 (2001 - $501,313,250) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia except for Series AT which is a private placement.

Series	Date issued	Maturity date	Interest rate	Debt outstanding
N	Apr. 28/85	2002 to 2005	12.375-12.500	$ 2,520,000
AC	May 13/92	2002	9.875	30,825,000
AD	Dec. 9/92	2002	8.500	8,280,000
AE	May 5/93	2002 to 2003	8.500	6,400,000
AF	Nov. 18/93	2002 to 2003	7.500-7.625	5,030,000
AG	July 13/94	2002 to 2004	9.250	7,000,000
AH	Dec. 8/94	2002 to 2004	9.5-9.750	11,610,000
AI *	May 2/95	2002 to 2005	8.875-9.125	9,255,000
AJ	Nov. 14/95	2002 to 2005	7.875-8.125	15,750,000
AK *	May 14/96	2002 to 2006	7.250-8.000	25,263,000
AL	Oct. 28/96	2002 to 2006	6.750-7.500	12,451,000
AM *	May 12/97	2002 to 2007	6.500-7.000	38,294,000
AN *	Oct. 17/97	2002 to 2007	5.500-6.250	28,854,000
AP *	Jan. 30/98	2003 to 2019	5.500-6.125	40,485,000
AQ	May 15/98	2002 to 2008	5.125-5.500	29,197,000
AR *	Dec. 1/98	2002 to 2008	5.250-5.625	42,957,000
AS *	May 17/99	2002 to 2009	5.000-5.375	32,660,000
AT	May 28/99	2002 to 2015	1.000	2,362,500
AU *	Dec. 22/99	2002 to 2009	6.375-6.750	35,704,000
AV *	June 1/00	2002 to 2010	6.500-6.875	23,960,000
AW *	Nov. 9/00	2002 to 2010	5.875-6.375	23,391,000
AX *	May 29/01	2002 to 2011	4.375-6.250	30,559,000
AY *	Nov. 7/01	2002 to 2011	3.125-6.000	19,365,000
				$ 482,172,500

** Placed directly with the Province of Nova Scotia.*
Interest is payable semi-annually, except for Series AT which is payable annually.

(b) Principal payments due in each of the next five years are as follows:

2003	$ 95,335,750
2004	55,277,750
2005	55,519,750
2006	55,135,750
2007	52,369,750

6 Taxes:

The Corporation is not subject to provincial or federal taxes.

7 Change in non-cash working capital:

	2002	2001
Accrued interest receivable	**$ 831,273**	$ 4,414,644
Other receivables	**(616)**	5,678
Accounts payable	**29,261**	2,232
Accrued interest payable	**(833,593)**	(4,435,415)
	$ 26,325	$ (12,861)

8 Public service awards:

As at March 31, 2002, the Corporation has recorded a liability in the amount of $24,773 in respect of a provincial public service award for one employee who is retiring in fiscal 2004. The Corporation will fund the public service awards of its other employees through future budgets. An actuarial valuation has been requested by the Corporation, but has not been received as of the date of these financial statements. The Corporation will use the actuarial valuation to record future provisions to cover the expected future liability associated with the provincial public service awards.